FISCAL NOTE

Bill #: HB0434 **Title:** Transfer money from state fund to general fund

Primary Sponsor: Wanzenried, D **Status:** As Introduced

Sponsor signature Date Chuck Swysgood, Budget Director Date

Fiscal Summary

	FY 2004 Difference	FY 2005 Difference
Expenditures:		
General Fund	$802,555	$861,957
State Special Revenue	$592,172	$636,002
Federal Special Revenue	$161,376	$173,321
Proprietary	$93,124,066	$133,249
University Funds	$215,009	$230,923
Revenue:		
General Fund	$93,000,000	
Net Impact on General Fund Balance:	$92,197,445	($861,957)

- ☐ Significant Local Gov. Impact
- ☐ Included in the Executive Budget
- ☐ Dedicated Revenue Form Attached
- ☒ Technical Concerns
- ☒ Significant Long-Term Impacts
- ☒ Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

1. This bill will require disbursement of $93 million to the General Fund from State Fund reserves (reserves are the estimated amounts set aside to pay future benefits to injured workers) regardless of determination of adequate reserve funding.
2. This bill would require the governor's budget for the 2007 biennium to include a transfer from the general fund to the workers' compensation fund in an amount equal to $93 million plus interest at the rate earned by the short-term investment pool in fiscal 2004.
3. The provision that the governor is to include the $93 million plus interest at the state short-term investment pool (STIP) rate in the budget submitted to the 59th legislature is not a guarantee of repayment.
4. Since the bill does not guarantee the repayment to State Fund, to ensure financial solvency, State Fund would need to recover the $93 million and lost investment income at a reasonable rate of return.
5. Recovery of the $93 million would require premium rates to increase an estimated 15% in FY04, and stay at this level for 8 years. It is likely the increase in rates would cause some businesses to seek their coverage elsewhere, which will result in increased rates to remaining businesses (primarily small businesses as State Fund insures approximately 23,000 employers with annual premium under $5,000).
6. A 15 percent increase in worker's compensation rates would cost the state $1,895,178 in FY04 and $2,035,452 in FY05. The general fund share is $802,555 in FY04 and $861,957 in FY05.

7. All funding for State Fund is generated through: 1) premiums collected for insuring policyholders' workers' compensation and occupational disease liability; and 2) income generated on investments. By law, rates must be set at amounts sufficient, when invested, to carry the estimated cost of all claims to maturity, to meet expenses and maintain appropriate surplus funds.
8. If a transfer of $93 million occurred, State Fund would need to transfer funds from surplus to reserves, which would result in inadequate surplus.
9. State Fund's long-range target is to have a reserve to surplus ratio of 1.5 – 2.0. A strong surplus, along with adequate loss reserves, protects injured employees, policyholders, and allows State Fund to continue to operate as a strong and viable insurance carrier, committed to the businesses of Montana.
10. Surplus at the end of FY02 was $158.5 million (statutory basis), a ratio of 2.18. A reduction of assets in the amount of $93 million results in a reserve to surplus ratio of 5.3 to 1, which is indicative of a precarious financial condition.
11. Even if the intent is to pay the money back to State Fund with the interest at the STIP rate, Article VIII, Section 13, (4) of the state constitution requires: "Investment of state compensation insurance fund assets shall be managed in a fiduciary capacity in the same manner that a prudent expert acting in a fiduciary capacity and familiar with the circumstances would use in the conduct of a private insurance organization."
12. The budget submitted by the governor to the 59th legislature is to include a provision for interest on the amount transferred at the rate earned in STIP for the fiscal year ending June 30, 2004. This is contrary to the constitutional standard, as a prudent expert managing the investment of State Fund assets would not invest that amount of assets in the lower paying STIP account.
13. Lost interest earning to State Fund could be significant.
14. The statutes provide that all money paid to the State Fund is the property of the state fund and must be held in trust for the purpose for which the money was collected. Policyholders or others may take legal action to prevent any fund transfer on the constitutional grounds of impairment of contract.

FISCAL IMPACT:	FY 2004 Difference	FY 2005 Difference
Expenditures:		
Personal Services	$1,895,178	$2,035,452
Transfers	93,000,000	
Funding of Expenditures:		
General Fund (01)	$802,555	$861,957
State Special Revenue (02)	592,172	636,002
Federal Special Revenue (03)	161,376	173,321
Proprietary (06)	93,124,066	133,249
University Funds	215,009	230,923
TOTAL	$94,895,178	$2,035,452
Revenues:		
General Fund (01)	$93,000,000	
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):		
General Fund (01)	$92,197,445	($861,957)
State Special Revenue (02)	(592,172)	(636,002)
Federal Special Revenue (03)	(161,376)	(173,321)
Proprietary (06)	(93,124,066)	(133,249)

University Funds	(215,009)	(230,923)

LONG-RANGE IMPACTS:

1. This bill would require the governor's budget for the 2007 biennium to include a transfer from the general fund to the state workers' compensation fund equal to $93 million plus interest at the rate earned on the state short-term investment pool in fiscal 2004. The short-term investment pool interest rate for fiscal 2004 is projected to be 3.5505%. If the transfer from the state workers' compensation fund to the general fund would be made at the end of fiscal 2004 and the governor's budget called for a transfer at the beginning of fiscal 2006, the amount proposed to be transferred would be $96.302 million (93 million x 1.035505) as the interest would only apply for one year.

2. Since the bill does not guarantee the repayment of the money to State Fund, to ensure financial solvency, State Fund would need to recover the $93 million and lost investment income at a reasonable rate of return. This would require premium rates to increase an estimated 15% in FY04, and stay at this level for 8 years. It is likely the increase in rates would cause some businesses to seek their coverage elsewhere, which will result in increased rates to remaining businesses (primarily small businesses as State Fund insures approximately 23,000 employers with annual premium under $5,000).

TECHNICAL NOTES:

1. In general, a transfer of funds from one entity to another followed by a transfer of the same amount plus interest from the second entity back to the first constitutes a loan. A loan to the general fund would leave the fund balance unchanged because the obligation to repay the loan would be a new liability equal to the increase in current assets from the loan. Because this bill requires that repayment be included in the governor's budget for the next biennium but does not require that repayment be made, this fiscal note assumes that this transfer is not a loan, and therefore does increase the general fund balance.